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The Practicing CPA

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NO ENDANGERED SPECIES THIS

As I traveled the U.S. and abroad this year, consulting with various CPA firms, numerous people involved with the profession asked me to comment on the potential disappearance of the "accountant"—even the "accounting profession." The assumption is that a true flat tax, encompassing business earnings as well as personal taxes, would all but eliminate the need for the CPA. Even if no one picks up on the flat tax proposal, they argue, there are certainly significant on-going efforts to simplify the tax structure, none of which bodes well for the profession.

One of my concerns regarding this ever-present fear of CPAs being an endangered species is that this perception may be scaring numerous, well-qualified students (and others) from entering the profession. After all, who wants to enter a profession on the brink of extinction?

What is important here is that the public understands that CPAs' professional services extend well beyond the preparation of tax returns. They need to know that the CPA is not only the client's most trusted advisor, but a critical element in the client's present and future business. It is equally important that CPAs, as well as college students, understand that the profession has a brilliant future, albeit in a changing environment. I predict a long and healthy life for the CPA profession, in general.

The profession is changing dramatically, however, and will continue to do so for years to come. CPAs need to prepare themselves for this new environment and for a different role than the one they have played in the past. Today, the role is business advisor.

CPAs are no longer historians. They have become strategic thinkers and facilitators of sophisticated business deals and acquisitions. CPAs are the architects of the financial security on which companies, individuals, and families, as well as governments, depend. My observations lead me to believe that next to the parish priest or rabbi, the CPA's telephone number is the most remembered and frequently dialed number in America.

Nevertheless, without the proper skills, CPAs will find post-industrial America a difficult place in which to practice. Advanced educational attainment will, of course, be necessary. Remember, though, there is zero correlation between academic achievement and job success. There are numerous other skills with which CPAs must equip themselves in order to compete.

Consider, for example, the number of unemployed middle managers, many of whom hold MBA degrees and other professional designations obtained in the not-so-distant past. The CPA of today and tomorrow

(continued on page 7)

What's Inside...

A Special Loss Prevention Supplement, pp. APL 1–4.

PCPS Advocacy Activities

How TIC works with the standard setters

In its advocacy and leadership role on behalf of all local and regional firms, the private companies practice section (PCPS) of the AICPA division for CPA firms devotes considerable time to technical issues. These efforts are conducted primarily by the PCPS technical issues committee (TIC), which since 1979 has been its formal liaison with the Financial Accounting Standards Board, the Governmental Accounting Standards Board, and a variety of AICPA senior technical committees, including the Accounting Standards Executive Committee and the Auditing Standards Board.

TIC stays abreast of the activities of these bodies and those federal regulatory groups such as the Government Accounting Office and the Federal Deposit Insurance Corporation to monitor technical developments that could have a significant effect on private companies, small governments, not-for-profit entities, and the CPA firms that serve them. When appropriate, TIC submits comments and recommendations to support the interests of its constituents. TIC also alerts firms to aspects of new or proposed guidance that may have special impact on their practices.

Since its founding, TIC has submitted more than 300 letters of comment to these regulatory bodies. TIC meets annually with FASB and GASB and appears at their public hearings whenever its views require further elaboration. In addition, a FASB representative attends most TIC meetings. In recent years, TIC has moved toward providing standard-setting bodies with practical assistance such as "field testing" portions of proposed guidance and providing practical examples of potential implementation difficulties.

One of the recommendations made to the AICPA board of directors by the PCPS special task force on standards overload is to increase small firm input in the standard-setting process. In May, this year, a group met to develop a framework for future TIC activities and discuss how the committee can be more effective in expressing its views.

TIC comprises fourteen practitioners from across the country. They bring considerable expertise to the task of monitoring technical developments. Nevertheless, TIC would benefit considerably if its members could draw on the knowledge of their colleagues in practice in all areas of the country. (See meeting information below.)

Communication is a two-way street. TIC would like to gather more information about practitioners' problems in implementing standards. This would help the committee in choosing projects and shaping its comments. TIC also would like to help practitioners implement standards by disseminating information on appropriate educational materials.

On-going communication with the standard-setting bodies benefits everyone. For TIC, it may lead to a better understanding of the thinking behind the development of a standard. Aspects that appear to create problems for small entities might then be seen to be due to a simple misunderstanding of intent. TIC's overview may pinpoint areas where a document's wording could be more "user-friendly."

Such clarification seems likely as the standard setters increasingly seek TIC's small-entity perspective on proposed interpretations and other projects. A recent example is FASB's project on disclosure effectiveness where the Board sought and accepted TIC's recommendations regarding multi-employer pension plan disclosures. In addition, AcSEC has encouraged TIC to take its comments on proposed standards to the next level by not only pointing out problems but proposing solutions to them.

TIC meets five times a year to discuss various professional issues and invites local practitioners to attend the sessions. Due to the technical content of the discussions, firms benefit most if their key accounting and auditing partner attends. TIC's next meeting will be on July 25–26 in Chicago, IL (in conjunction with the National Advanced Accounting and Auditing Technical Symposium). If you are interested in attending, contact me via the numbers below. ☑

—by **Susan E. Sly, CPA,** *AICPA Professional Standards and Services, New York, tel. (212) 596-6047, FAX (212) 596-6091*

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Editor: Graham G. Goddard

How Should We Bill for Technology?

The article, "Developing a Technology Plan for Your Firm," in the May *Practicing CPA,* suggests we impose a technology surcharge for the considerable computer-related expenses our firms incur. In fact, the author, L. Gary Boomer, points out that unless we spend about 5 percent of gross revenues on technology, we will not stay current with new developments.

It seems that the modern CPA needs to reconcile how to bill clients for work performed in fewer hours than in the past, while recouping the recurring costs of computer hardware and software upgrades which make those time savings possible.

As a practical matter, how should we charge clients for work performed in less time each year without penalizing ourselves? Should we merely divide the technological expenses by total estimated chargeable hours and add this amount to the bill for each hour of work? Or do we use some other arbitrary method to recoup our costs?

Let's take, as an example, a hypothetical client, Ajax Co., for which we prepare an annual corporate tax return. Ajax's bills have been as follows:

1994 $675 (for 7 hours work)
1995 $685 (for 7 hours work)

For the 1996 tax year, however, there have been several developments which affect Ajax Co. For example:

- ☐ The same CPA has been preparing Ajax's tax return since 1994 and is now able to perform the task much faster without sacrificing quality.
- ☐ Ajax has been given a set of tax organizers which allows us to obtain all necessary data at one time, obviating the need for a series of calls to Ajax's controller. This avoids work on the return proceeding in fits and starts.
- ☐ We have spent a considerable amount of money upgrading our software and hardware capabilities. This has increased productivity and allows us to spend less time preparing returns.

So, how do you think we should bill Ajax Co. for the preparation of its 1996 return? Do you think it should be any of the following:

- ☐ $475 (for 5 hours work)?
- ☐ $487.50 ($475 for 5 hours work plus a calculated technological fee of $12.50)?
- ☐ $685 (the same fee as in 1995 to show the client that our rate has not increased)?
- ☐ Some other amount based on time and an arbitrary technological fee?

Determining a fair fee

What is a fair way to charge clients for annual computer costs? Let's say we spent $25,000 on technology and actually billed 10,000 hours. Should we add $2.50 to each hour billed as a technological fee? The 10,000 hours comprise all hours billed to clients, but every phase of our work—whether involving taxes, audit, word processing, and so on—is enhanced by technological improvements. So, which is more equitable, charging a technological fee per hour or writing up the client bill to at least the prior year's amount?

I believe the best way to handle the billing is to charge the same fee as last year's actual as a minimum. That way, the firm receives income to offset its technological expenses. It is proper to earn what was considered a fair fee in the past, although time has been saved due to the additional expenses the CPA firm has incurred. Technological fees are subject to argument by clients and aren't easy to calculate fairly, anyway. What about original computer costs and prior year's training costs, for example?

There is one overriding factor here: Why reduce your income for a job well done? Time spent on a task would not be reduced as much if the firm were not willing to spend money on computer updates and staff training. The funds spent in no way diminish our value to clients.

Other considerations

As technological developments enable us to produce more work for more clients, we should be careful to impress upon our clients that each one of them is just as important to us now, as in the past. We should take care not to reduce our service to them.

For example, I believe that on completing a corporate tax return, each one should be reviewed with and explained to the client—it should not be merely left in the reception area for the client to collect. Clients want to see that we care and we can demonstrate this, further, by periodically visiting them on their own premises to discuss their problems and concerns.

If we are going to charge clients for technology costs, we should strive to give them the service they have come to expect from us. That way, when the "high volume/low budget/great computer" folks come visiting your clients, they will not be tempted to "save money," because your service can't be beat! ☑

—by **Lawrence Sanders, CPA,** *Davis, Yecny & McCulloch, P.C., P.O. Box 738, Florence, Oregon 97439-0029, tel. (541) 997-3434, FAX (541) 997-3435*

For more information about "Developing a Technology Plan for Your Firm," contact L. Gary Boomer via toll-free tel. (888) BOOMER-5, or FAX (913) 537-4545.

Use Management Letters for MCS Practice Development

Management letters may well be one of the most significant marketing tools a traditional CPA firm can use to establish or expand its consulting practice. A management letter is one of the few tangible products clients receive from their CPAs, other than annual financial reports and tax returns—and may actually provide more value to clients.

That is not to say that accurate financial reports aren't important. They are absolutely necessary for management, shareholders, and lenders. The management letter, however, is geared to improving the client's operations and profits on a prospective basis.

The market for CPA services has changed. Clients want help in becoming more efficient and profitable. They need more from their CPAs than an annual report.

While the CPA may discuss the observations made throughout the course of an engagement, it is important to summarize these observations and findings in writing. Oral communication is an important aspect of client service. It is more personal than written communication and, perhaps, more timely if conducted "on the spot."

A management letter, however, provides written evidence of the CPA's knowledge of the client's business and of his or her desire to be part of the team to help optimize the client's performance. Management letters are required by GAAS, but are, nevertheless, appropriate in all engagements where the CPA makes relevant observations about the client's business—MCS engagements, for example.

What a management letter is

A management letter is a formal, written document that conveys the CPA's findings and observations about particular aspects of the client's business. It may describe certain procedures that the CPA performed in an engagement and identify ideas and recommendations that can improve the entity's operations.

Obviously, the management letter should address issues related to the client's accounting systems, procedures, and reports—issues such as internal control environment, procurement practices, accounting policies, procedures, and financial reporting practices. The management letter might also be expanded to cover other observations that the CPA has regarding a variety of topics. These could include, for example,

- ☐ General business observations.
  - Management structure.
  - Business planning.
  - Market and product planning.
  - Other general business observations.
- ☐ Financial control observations.
  - Financial analysis.
  - Budgeting procedures.
  - Forecasts and projections.
  - Capital expenditure evaluations.
  - Cash management.
  - Business valuation.
  - Other financial control observations.
- ☐ Information systems observations.
  - System deficiencies.
  - Selection and acquisition of new systems.
  - Design and implementation.
  - Other information system observations.
- ☐ Manufacturing process observations.
  - Planning and scheduling activities.
  - Inventory management activities.
  - Other related manufacturing activities.
- ☐ Other observations that are pertinent to the client's business.

The CPA should be looking for areas in which a client's business can improve its operations. You bring a wealth of knowledge gained from a broad base of clients to the task—knowledge that can be useful to other clients and result in improved performance and profits. Convey those ideas with a management letter. Use this letter to expand your consulting practice by identifying needs the client may not know are necessary.

How to use a management letter

You can describe specific consulting services that address the client's needs in the management letter. Or, instead of doing this, it may be more appropriate to follow up with a meeting at which you build a consensus with the client as to the appropriateness and priority of the various needs that have been identified. You would then submit a proposal that addresses the needs, defines the scope of the project, and outlines the potential costs and benefits with each proposed MCS service.

Regular use of management letters will prompt you to analyze each client's particular situation, and, as stated above, will enhance each client's perception of your knowledge of, interest in, and value to his or her business. In fact, these written communications provide clients with tangible evidence of these facts and remind them that it is you who comes up with all these great ideas. All in all, I say, don't overlook opportunities that management letters provide to expand your consulting practice. ☑

—by **Otto W. Krohn, CPA,** *O.W. Krohn & Associates, CPAs, 11602 Wainwright Boulevard, Fishers, Indiana 56038, tel. (317) 842-7771, FAX (317) 845-8185, E-MAIL OWKCPA@aol.com*

Accountants Professional Liability Loss Prevention Supplement

JULY 1997

Provided by Aon Insurance Services, AICPA Professional Liability Insurance Plan National Administrator

PROFESSIONAL LIABILITY COVERAGE WHEN PROVIDING PFP SERVICES

Practitioners who provide personal financial planning (PFP) services have expressed concerns about several insurance, professional liability, and regulatory issues. In particular, they ask

- ☐ Whether CPAs must be registered as investment advisors for investment planning activities to be covered under AICPA Professional Liability Insurance Program policies.
- ☐ If the AICPA Professional Liability Insurance Program policies cover firms for financial planning and investment advisory services.
- ☐ Which activities put CPA firms most at risk.

A review of AICPA Professional Liability Insurance Program data reveals that about 14 percent of the CPA firms it insures provide some level of personal financial planning services—a number that is expected to increase. It is not surprising, therefore, that CPAs are becoming increasingly concerned about professional liability coverage for their investment planning activities.

Together with the AICPA Professional Liability Insurance Program committee, CNA and Aon Insurance Services have addressed these concerns by clarifying and enhancing Program coverage for personal financial planning services to mirror the needs of practitioners.

Registration as an investment advisor

Although registration as an investment advisor is not required for coverage under the AICPA Professional Liability Insurance Program, it may be required by government regulations. Prior to incorporating personal financial planning services into the practice, CPAs need to investigate the federal and state laws which regulate such services to ensure compliance.

The Investment Advisors Act of 1940 (IAA), as well as various state laws, define the registration requirements for professionals who provide financial planning services or investment advice to clients. The IAA exempts from its definition of investment advisor, "Any lawyer, accountant, engineer, or teacher whose performance of such advisory services is solely incidental to the practice of his profession."

CPAs who provide generic financial planning advice to clients which is solely incidental to tax and accounting services being rendered, generally are not subject to federal or state registration requirements. CPAs who hold themselves out to the public as financial planners or investment advisors generally are required under the provisions of the IAA to register with the SEC, however.

State regulations applicable to financial planners or investment advisors exist in all states except Colorado, Iowa, and Wyoming. CPAs who provide financial planning advice to clients should consult with their individual state CPA societies and knowledgeable local counsel about compliance with both the IAA and any state laws that may apply. Additionally, the personal financial planning division of the AICPA publishes a practice aid, *Guide to Registering as an Investment Adviser,* which provides further guidance on this subject.

Types of investment services

Many activities that might be construed as investment advice are within the scope of a CPA's professional services. The AICPA Program protects insureds and firms for covered claims arising from the following investment advisory services:

- ☐ Discussing generic information about investments.
- ☐ Outlining various types of investments and their individual implications.

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In This Supplement

- Providing general asset category recommendations.
- Assisting in selecting investment advisors.
- Evaluating the suitability of investments selected by clients or recommended by other advisors.
- Developing an appropriate investment strategy.
- Suggesting criteria for selecting mutual funds based on a client's goals and objectives.
- Monitoring the performance and results of money managers.
- Identifying mutual funds for a client to investigate.
- Recommending investments in a specific stock, bond, or mutual fund to a client.
- Managing an investment portfolio on behalf of a client.

Certain of these investment advisory services are considered high-risk activities that could lead to a higher frequency of claims. These include recommending specific investments, such as individual stocks or bonds, especially if CPAs receive commissions or manage an investment portfolio on behalf of a client when exercising discretionary authority over the client's funds and assuming direct custody of those funds. While the manner in which CPA firms are compensated for services has no bearing on the applicability of insurance coverage under the AICPA Professional Liability Insurance Program, the acceptance of commissions for products or services is an underwriting consideration. Many states prohibit by statute or regulation CPAs or CPA firms from accepting commissions.

As part of their professional services to clients, some financial planners with CPA firms may be authorized by their clients to place orders to buy and sell securities on their behalf. Protection is afforded under the AICPA Program for covered claims arising from placing such orders with a licensed broker or dealer. Claims arising from acting in the capacity of a broker or dealer in securities are not covered, however, nor are criminal proceedings, such as those that arise from violations of statutes or regulations.

To minimize their liability exposure, CPAs providing personal financial planning services should have a financial plan or engagement letter outlining both the investment goals of their clients and the amounts of risk their clients are willing to accept. It is also important to avoid making representations that could be construed as guaranteeing the performance of any specific investment or individual financial plan.

In general, high-risk activities result from actual or apparent conflicts of interest. The appearance of a conflict of interest or impaired objectivity is one criterion to use in determining whether an investment advisory service has a high probability of generating claims.

High-risk scenarios

Suppose that a CPA recommends a specific investment and receives a commission, in addition to receiving a customary fee for services. At the very least, the CPA must disclose to the client the commission arrangement if the recommended security is purchased. Additionally, accepting commissions, charging fees that are contingent on the volume or frequency of a client's investment transactions, or accepting any type of reciprocity from third parties can create the appearance of impaired objectivity and a conflict of interest. CNA, as underwriter of the AICPA Program, actively discourages CPAs from accepting commission-based income because of the high risk of generating claims.

Imagine that a CPA owns an interest in a closely held limited partnership. The client decides to invest in the limited partnership after being introduced by the CPA to the general partner. Although the CPA receives no commission or referral fee, he or she has created a potential conflict of interest. Even if the interest in the limited partnership is disclosed to the client, the exposure and potential for a claim still exist. It is good business practice for CPAs to keep their personal investment involvement

Underwriters Corner

The Underwriters Corner is published by Aon Insurance services to provide AICPA members with answers to frequently asked questions regarding professional liability insurance. Should you have questions, such as the one below, that you would like answered in this publication, just address them to: *Accountants Professional Liability Loss Prevention Supplement, c/o Aon Insurance Services, 4870 Street Road, Trevose, Pennsylvania 19049, Attn: Marian Cook.*

Q. What criteria does the AICPA Professional Liability Insurance Program use to determine whether members of a CPA firm are considered to be "accounting professionals" for the purpose of underwriting a policy?

A. The underwriter of the AICPA Program, Continental Casualty Company, considers an "accounting professional" to be anyone who meets at least one of the following criteria:

- Anyone who performs tax, bookkeeping, compilation, review, audit, attest, assurance, or consulting services for clients.
- Anyone who performs tax, bookkeeping, compilation, review, audit, attest, assurance, or consulting services for clients on behalf of the CPA firm as a per diem or independent contractor, if they worked 1,000 hours or more for the firm in its last fiscal year.
- Anyone who holds a professional accounting designation (CPA, PA, or enrolled agent).
- Anyone who holds a college degree in accounting, a BA/BS with an accounting major, or has equivalent practical experience/professional education.

The number of accounting professionals in a firm is one important consideration in determining a firm's insurance premium.

The Professional Liability Insurance Plan Committee objective is to assure the availability of professional liability insurance at reasonable rates for local firms, and to assist them in controlling risk through education. For information about the AICPA Plan, call the national administrator, Aon Insurance Services, (800) 221-3023, or Leonard Green at the Institute (201) 938-3705.

entirely separate from any investment recommendations to clients.

Depending on the size of the CPA's ownership interest in the limited partnership, this situation could trigger a CNA policy exclusion. This exclusion eliminates coverage while performing professional services for any organization if the CPA or his or her spouse is an officer, director, partner, manager, or holder of more than a 10 percent ownership interest.

If a CPA assumes discretionary authority or direct custody of client funds, he or she is assuming the role of a fiduciary. This results in a significantly higher risk of lawsuits and requires the adherence to more stringent disclosure and financial standards.

For example, the CPA may be required to disclose any material information that could cause a conflict of interest and to follow specific regulations on segregation of client funds and record keeping. State and federal laws establish stringent requirements that go beyond AICPA professional standards for professionals acting in a fiduciary capacity on behalf of clients. In the event of a malpractice lawsuit, opposing counsel will highlight these duties and attempt to demonstrate that the professional did not meet this higher standard of care.

Both CPAs and clients benefit when CPAs can provide knowledgeable financial planning and investment advice. The AICPA Professional Liability Insurance Program recognizes these activities as legitimate professional services and provides insured firms with coverage for claims arising from most financial planning and investment advisory services, subject to the terms, conditions, and exclusions of the policy. Be aware, however, that some of these activities could increase the risk of claims. ☑

—by **F. Kyle Nieman,** *CNA Pro, an operating division of CNA, 36 South, CNA Plaza, Chicago, Illinois 60685, and* **Ken Mackunis,** *Aon Insurance Services, 4870 Street Road, Trevose, Pennsylvania 19049, tel. (800) 221-3023*

CNA Alert Hotline

As a special benefit to insureds, the AICPA Professional Liability Insurance Program offers a toll-free hotline for claims service, coverage analysis, referral to legal counsel on claim issues, and risk management assistance. Developed by CNA, the CNA Alert Hotline enables insureds to speak with claims and risk management professionals on a variety of topics related to accountants' professional liability. The hotline provides:

- ☐ **Advice and counsel on claim- or incident-related concerns.** Insureds can speak directly to their territorial claim professional to request information or guidance on reporting a claim or potential claim, or to confer on the handling of a previously reported claim.
- ☐ **Information regarding coverage.** As CPAs undertake new types of nontraditional engagements, questions may arise regarding the application of professional liability coverage under the AICPA Program policies. Insureds can speak directly to the CNA claim manager responsible for their territory for answers to these questions.
- ☐ **Referral for legal advice in response to specific potential risk issues.** Sometimes, insureds may need legal advice in responding to a situation that has arisen with a client, or in responding to a subpoena to produce documents or testify regarding professional services. CNA can refer insureds to attorneys in their area to assist them in responding to the situation, typically at no charge. Of course, all such conversations are privileged and confidential between the insured and the attorney.
- ☐ **Risk management assistance.** Insureds can receive personal assistance from CNA risk management professionals on professional liability issues encountered in their day-to-day practice, such as identifying the liability risks attendant to undertaking a particular type of client engagement, or responding to a difficult client situation while protecting the interests of the CPA firm. CNA is available to assist CPAs with these and other non-technical liability issues pertinent to their practice.

It is important to note that general business advice, advice on technical accounting and tax issues, and ethical issues will not be available through the hotline. Program members will be directed to the AICPA technical assistance hotline or their personal counsel for assistance in these areas.

The CNA Alert Hotline is a service provided by the AICPA Professional Liability Insurance Program to help Program insureds reduce and manage liability risks in their practices. Insureds may access the hotline by calling (800) 262-8060. ☑

www.cpai.com

Aon Insurance Services, administrator for the AICPA Member Insurance Programs, hosts a website— **http://www.cpai.com** — on the World Wide Web. The Aon Insurance Services' web site offers a comprehensive overview of all insurance products available to AICPA members, including life insurance for members and their spouses, life insurance programs for their firms and employees, professional liability insurance for their practices, auto and homeowners coverages, excess personal liability coverage, disability income coverage, long-term care protection, and Medicare supplement coverage.

Visitors to the site can view the coverage features and benefits, eligibility requirements, and underwriter information for each product. Members interested in applying for coverage can request information and quotations by E-MAIL.

The professional liability insurance page also contains information on filing a claim, a schedule of AICPA Program risk management seminars, articles from the Program's newsletter, and an explanation of policy terms with user-friendly definitions.

Risk Management Seminars

To help AICPA Program insureds reduce their exposure to malpractice claims, the AICPA Professional Liability Insurance Program offers a comprehensive risk management seminar developed by CNA titled, "The Lifecycle of a Client Relationship." This seminar addresses such topics as why CPAs get sued, defining the scope of your practice to limit your liability exposure, client acceptance, and the "red flags" of heightened engagement risk.

Aon Insurance Services and your regional Program representative will present seminars throughout the United States during the 1997 calendar year. Firms insured with the Program that employ thirty or more professionals can qualify for an in-house seminar.

In addition to learning methods for managing and limiting liability risk through practice management, accounting professionals who attend an AICPA Program Risk Management Seminar will earn four hours of continuing professional education (CPE) credit in all states except New York. New York State insureds may apply this CPE credit only toward their AICPA continuing education requirements. The modest fee for seminar attendance is charged to cover the costs to host the seminar.

AICPA Program insureds will receive information about the Risk Management Seminar in their area approximately six weeks prior to the seminar date. The following seminar schedule is only a partial listing. For a current listing, including sites and times, and to obtain specific seminar details, call Aon Insurance Services, (800) 221-3023. ☑

The AICPA Professional Liability Insurance Program is underwritten by Continental Casualty Company, one of the CNA insurance companies. CNA is a registered service mark and trade name of the CNA Financial Corporation.

The Accountants Professional Liability Loss Prevention Supplement *should not be construed as legal advice or a legal opinion on any specific factual situation. The preceding summary is for illustrative purposes only and is not a contract. It is intended to provide a general overview of the plan described. A specimen copy of the entire policy is available upon request. Please remember that only the insurance policy can give actual terms, coverages, amounts, conditions, and exclusions. Program availability and coverages are subject to state regulatory approval.*

Risk Management Seminars Schedule

Date	Location	Date	Location
July 9	Topeka, KS	September 26	Mobile, AL
July 10	Kansas City, KS	September 26	Madison, WI
July 24	Long Island, NY	October 3	S. Charleston, WV
August 7	St. Louis, MO	October 8	Tampa, FL
August 8	Rosemont, IL	October 17	Chicago, IL
August 11	Charlotte, NC	October 21	Cherry Hill, NJ
August 12	Columbia, SC	October 23	Memphis, TN
August 22	Tulsa, OK	October 23	Clinton, NJ
September 9	Lebanon, NH	October 23	Salt Lake City, UT
September 10	Portland, ME	October 24	Las Vegas, NV
September 11	Morristown, NJ	October 28	Knoxville, TN
September 15	Worchester, MA	October 29	Lafayette, LA
September 16	Boston, MA	November 4	Shreveport, LA
September 17	Providence, RI	November 5	Atlanta, GA
September 17	Ft. Lauderdale, FL	November 5	Sacramento, CA
September 17	Modesto, CA	November 6	Savannah, GA
September 18	Nashville, TN	November 7	Fresno, CA
September 19	Santa Barbara, CA	November 12	Burbank, CA
September 19	Raleigh, NC	November 13	Irvine, CA
September 23	Birmingham, AL	November 14	San Francisco, CA
September 25	Montgomery, AL	December 4	Kenner, LA

Your Voice in Washington

AICPA comments on home-business act

The AICPA testified recently in support of the "Home-Based Business Fairness Act of 1997." The bill (S. 460) clarifies the definition of an "independent contractor," increases the health insurance deduction for self-employed individuals to 100 percent beginning in 1997, and liberalizes the home-office deduction that was severely restricted by the 1993 U.S. Supreme Court *Soliman* decision (see the May 1997 *Practicing CPA*).

The AICPA told the Senate Finance Subcommittee on Taxation and IRS Oversight that the provisions in S. 460 that clarify the definition of an "independent contractor" are an improvement over an earlier version of the bill and existing law. The Institute urged the Subcommittee to make the following two changes in S. 460, however:

Drop the safe harbor provision that is an alternative to the economic and workplace independence tests. This safe harbor in S. 460 can be met if the worker conducts business through a corporation or an LLC. It would be relatively simple, the AICPA said, for an employer to coerce an employee to become an independent contractor by offering to undertake incorporation procedures for the less sophisticated worker.

Require details similar to those recommended by the AICPA as part of a written contract between employers and employees as one of the criteria to qualify for a safe harbor for employers. The AICPA believes specific details are necessary to ensure a bilaterally fair independent contractor relationship. Among the details it recommended are a description of the services to be provided and the duration of the agreement, the amount to be paid, as well as acknowledgment that the service provider is responsible for his or her own federal and state income taxes (including self-employment taxes), that no fringe benefits will be provided to the service provider, and that the service provider will keep appropriate books and records.

IRS extends time to begin electronic payments

The IRS announced it will not impose penalties through December 31, 1997, on businesses that make timely deposits using paper federal tax deposit coupons while converting to the new electronic payment system from the old federal tax deposit coupon system.

Under the law, taxpayers with more than $50,000 of federal employment tax deposits in 1995 are required to enroll in the Electronic Federal Tax Payment System (EFTPS) and to deposit electronically by July 1, 1997.

Call EFTPS Customer Service at (800) 555-4477 or (800) 945-8400 for information. ☑

AICPA Conference Calendar

National Healthcare Industry Conference
July 17–18—The Mirage, Las Vegas, NV
Recommended CPE credit: 19 hours

Computer & Technology Conference: Tech '97 (Formerly Microcomputer)
July 20–23—MGM Grand, Las Vegas, NV
Recommended CPE credit: 24 hours

National Advanced Accounting and Auditing Technical Symposium (NAAATS)
July 28–29—Palmer House Hilton, Chicago, IL
Recommended CPE credit: 16 hours

Advanced Estate Planning Conference
July 30–August 1—Arizona Biltmore, Phoenix, AZ
Recommended CPE credit: up to 34 hours

National Government Accounting & Auditing Update Conference
August 25–26—JW Marriott, Washington, DC
September 29–30—Hyatt Tech Center, Denver, CO
Recommended CPE credit: 16 hours

OMB A-133 In-Depth 97 (Post National Government Accounting & Auditing Conference Program)
August 27—JW Marriott, Washington, DC
October 1—Hyatt Tech Center, Denver, CO
Recommended CPE credit: 4 hours

Advanced Litigation Services Conference
October 16–17—The Mirage, Las Vegas, NV
Recommended CPE credit: 16 hours

National Governmental Training
October 20–22—The Buttes Resort, Tempe, AZ
Recommended CPE credit: 24 hours

Auto Dealership Conference
October 27–28—Disney's Contemporary Resort, Orlando, FL
Recommended CPE credit: 16 hours

Federal Tax Conference/Fall Tax Division Meeting
October 27–29—JW Marriott, Washington, DC
Recommended CPE credit: 16 hours

To register or for more information, contact AICPA Conference Registration, tel. (800) 862-4272.

Questions for the Speaker (Some views on relationships with clients and staff)

Page eight of this issue contains some information about the formation of two MAP network groups that will provide practitioners with opportunities to discuss their problems and concerns and share practice management ideas. Participants at conferences such as the Practitioners Symposium have similar opportunities to meet with fellow practitioners and receive answers to questions such as the following.

Q. How can one terminate clients gracefully?
A. Bea Nahon, a Bellevue, Washington, CPA, says serious thought should be given to the reasons for terminating clients and, in each case, determination made as to whether the client can be saved. If the decision is to terminate, Ms. Nahon suggests using a letter, such as the sample termination letter in section 204.06 of the *AICPA Management of an Accounting Practice Handbook,* that explains you are redirecting your practice and think another firm could better serve the client.

Emile P. Ostriecher III, an Alexandria, Louisiana, practitioner, says that if you can't meet a client's needs for some reason, and think someone else can, referring that client can be a good idea. Mr. Ostriecher has both referred and obtained clients in such situations. In some cases, when clients wanted services the firm simply could not perform with its fee structure, the firm referred those services to non-certified accountants while retaining other services.

Mr. Ostriecher says that if a situation is not working out, you have to be prepared to tell the client, "We no longer have a beneficial relationship and would like you to find someone else. Let us know who that is and we will be glad to help with the transition."

Q. In the interest of developing good relationships with staff members, how much firm financial information should be shared with them?
A. Ms. Nahon says that at her firm, gross billings and billings by segment are shared on a regular basis but other financial information is not openly shared. She says it is on the hard drive and is not password protected; staff can figure it out. Ms. Nahon does not see any advantage to distributing the information.

Mr. Ostriecher's situation is similar. The financial statements are on the hard drive, and no one has ever told staff, "don't look." He says staff members know how much they are producing and the firm tries to share enough information so that they are aware it is doing well. Mr. Ostriecher believes staff has an overall understanding of the financial responsibilities of ownership—about debt and payroll that has to be met—as well as knowledge of partners' salaries.

Q. Is voice mail acceptable for client service or do we still need a receptionist?
A. Ms. Nahon has not installed voice mail because a lot of incoming calls are from clients who want to schedule an appointment or need some information, and staff can readily take care of those client needs. She prefers to concentrate on clients that really do need to talk to her.

Mr. Ostriecher says his firm has used voice mail for about eighteen months and is pleased with the results. The system is not the type that tells the caller which number to press for this or that purpose. Clients can key in partners' and staff members' extension numbers to reach the person they want or switch to the secretary to leave a message.

With regard to the firm's need for a receptionist, Mr. Ostriecher says their receptionist also performs a number of administrative duties. She can now do these jobs more efficiently and productively because she is not constantly stopping to write down messages.

If voice mail frees the receptionist to spend more time on other duties, could the firm actually make money on the position? Joseph A. Puleo, a Hamden, Connecticut, practitioner, says yes. Some years back, the receptionist at Puleo and Thompson told the partners she did not have enough to do so they gave her some paraprofessional work. She enjoys learning something new and has become proficient at this type of work. Now her time is charged out and the firm makes more than her salary. ☑

How to Reward Referrals

Many firms derive a major benefit from people referring new clients to them. A continuing concern, however, is how to appropriately recognize the referrals received and how to encourage more. There are, in fact, a number of recognition methods that seem to be successful on both counts. Here are a few ideas.

First and foremost, always respond promptly to a referral with a thank-you note.

This response should not be some kind of form letter which you had typed and then signed. I believe that a personal, handwritten note from you to the person who made the referral puts the response at a whole different level. It may take a little longer to do and you may need to work on your handwriting, but I think the effort is well worthwhile. Personal, handwritten notes have much more impact.

We all know that the best way to encourage referrals from people who are in a position to make them is to be able to give something back—to reciprocate. With this in mind, I suggest you make a consistent effort to look for opportunities to refer good clients to other professionals who may be able to render services to them.

Some words of caution are in order here, however. You need to be highly selective when referring business. You need to be sure that the recipient (individual or organization) will be able to provide the level and quality of services your clients have come to expect from you. The reason is that your clients will measure you by the success of that referred engagement.

Keep score

I strongly recommend that you keep score with respect to referrals. A relationship does not necessarily have to be on a quid pro quo basis, but when you are making referrals to other professional organizations, you should be able to measure a reasonable return from each one to justify continuing the association. If you don't think you are getting an appropriate response when you have made several good referrals to another organization, you might meet with the people concerned to discuss how they view the relationship and find out why you are not getting the response to which you think you are entitled.

Many firms take care to ensure that good referral sources are recognized by inviting them to various social events—the theater, sporting activities, a round of golf, etc., or by taking them to lunch, dinner, or some other function. But some referrers seem to be entitled to something more, and some firms' partners are struggling to find ways to appropriately recognize the outstanding support they have received.

Some unique approaches

In some instances, firms have selected specific gifts to be made to a particularly productive referrer. They have selected special clocks for the person's office, or ordered cases of fine wine to be delivered to his or her home. Other practitioners have inquired of the referrer's spouse about that individual's enthusiasms, and then bought a gift based on the spouse's recommendation.

These are recognition activities that go well beyond the sharing of a few pens or a set of coasters with the firm's logo on them. But sometimes there are circumstances where such response is warranted.

One of the more unusual approaches to recognizing referrals—the award of frequent flyer miles—was put into use recently by a local firm. As you may be aware, most major airlines now sell frequent flyer mileage coupons that can be used for various kinds of award programs.

The coupons, typically, are available in 500-, 1,000-, 2,500-, and 5,000-mile denominations, although they must, in most cases, be bought in some significant quantity, such as 150,000 miles an order. Still, if you are only paying two cents a mile for a minimum purchase, I think it is an affordable activity for most firms. One firm even published in its newsletter that it would be handing out 500-mile certificates for each referral received in 1996, and 1,000-mile certificates to some long-standing clients.

With the increasing enthusiasm of accumulating frequent flyer miles, this seems to be a particularly interesting way to recognize good referral sources and good clients. The main requirement here is that the recognition be prompt whether or not a referral becomes a client. And if the referral does, in fact, become a client, then, perhaps, one of the more spectacular responses just described would by appropriate. ☑

—by **Donald B. Scholl,** *D.B.Scholl, Inc., P.O. Box 3152, West Chester, Pennsylvania 19381-3152, tel. (610) 431-1301, FAX (610) 429-1086*

No Endangered Species This

(continued from page 1)

will require not only the advanced skills obtained through education, but the "soft" skills of communication and problem-solving ability—skills not always taught in the classroom.

So, while I am placing my bet on the CPA's future, I am really betting on the public's trust of and need for the CPA. Trust is not earned in a short period of time. Just consider how long it has taken CPAs to become known as the most trusted advisors. This trust of and need for is not likely to change anytime soon. The CPA profession is on the verge of being valued for its services and, I predict, will become one of the most highly paid professions before the end of this century, and will stay that way well into the next.

I would encourage all practitioners to emphasize the positive aspects of their careers, especially their role as most trusted advisor. The profession is entering a new age with an array of new services to offer. Don't hesitate to encourage your children to consider this profession when selecting a career. I believe it will only become more desirable, more profitable, and more balanced with the quality of life needs so cherished by the CPA community. ☑

—by **Jay N. Nisberg, Ph.D.**, *Jay Nisberg & Associates, Ltd., 9 Chipmunk Lane, Ridgefield, Connecticut 06877, tel. (203) 438-8914, FAX (203) 797-1539*

Join a MAP Network

Fellow practitioners from like-size firms are a major source of helpful information and practice management ideas. The issues facing one firm's managing partner are rarely unique. Others often have similar concerns, and forums where peer discussion of issues and ideas can take place are highly regarded by the managing partners familiar with their benefits.

The AICPA has assisted regional firms in conducting such forums for a number of years. Practice Group B Advisory Committee, as this group of regional firms is known, provides a forum for the partners to meet for an exchange of views on issues particular to their practices. The value of these meetings is evidenced by the quarterly schedule the group maintains.

Three years ago, the AICPA management of an accounting practice (MAP) committee launched another network program for larger firms. This program gives the managing partners of firms with over twenty-five AICPA members (excluding the national and Group B firms) an opportunity to discuss common management issues on an on-going basis.

Building on the success of this program, the MAP committee is forming two additional groups to provide practitioners with an opportunity to meet several times a year with colleagues from similar-size firms to exchange practice management ideas and information. The two new groups are for firms with ten to twenty-four AICPA members and firms with fifty or more AICPA members that are not currently part of Group B. The existing MAP Large Firm Network comprises firms with twenty-five to fourty-nine AICPA members.

The groups will establish their own agendas and operating guidelines and meet for one day approximately twice a year. Costs associated with participation in the MAP Networks will be borne by the members and the AICPA will administer the programs.

Additional information on the formation of the MAP networks will be sent to eligible firms shortly. Details may be obtained by contacting Anita Meola, AICPA MAP committee staff liaison, via telephone (201) 938-3583 or FAX (800) FAX-1112. ☑

Firm name ______________________

Address ______________________

Firm size ______________________

MP name ______________________

Telephone ____________ FAX ____________

AICPA Private Companies Practice Section
Harborside Financial Center
201 Plaza Three
Jersey City, N.J. 07311-3881
(201) 938-3005
Fax (201) 938-3404